

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 CAB-09 CIAE-00 COME-00 DODE-00

DOT-00 INR-10 NSAE-00 RSC-01 FAA-00 SS-20 L-03 NSC-07

XMB-07 OMB-01 DRC-01 /082 W
----- 104470

R 100941Z MAY 74

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 1757

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EO 11652 NA

TAGS ETRD TW

SUBJECT: CIVAIR: FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN
AIRLINES

REF STATE 079306

1. SUMMARY: GROC CONCESSIONS TO ITS NATIONAL AIR CARRIER,
CHINA AIRLINES (CAL), ARE LIMITED BUT, NONETHELESS, GIVE
SOME COMPETITIVE ADVANTAGE OVER U.S. CARRIERS, LARGELY
IN AREA OF FAVORABLE TERMS FOR FINANCING CAPITAL INVESTMENT.
END SUMMARY.

2. BIGGEST ADVANTAGE CAL ENJOYS FROM GROC ASSOCIATION
APPEARSTO BE IN EXPORT-IMPORT BANK LOAN GUARANTEE PROJECTS
COVERING PURCHASE OF

THREE BOEING 727, TWO BOEING 707 AND THREE USED BOEING
707-324C AIRCRAFT OVER PERIOD 1966 TO PRESENT. TOTAL
EXIM EXPORSURE WITH CAL (U.S. BANK GUARANTEES AND EXIM)
IS US\$45.06

MILLION (OF WHICH \$4.16 MILLION IN 1973) ON TERMS RANGING
FROM 5.5 PERCENT TO 6 PERCENT AND FOR 3.5 TO 7 YEARS.
LOCAL COMPONENT IN PURCHASE OF 7 AIRCRAFT (\$9.44 MILLION
CASH AND \$2.08 MILLION FROM LOCAL BANKS) IS PRESUMED
ALSO CONCESSIONAL SINCE IT WOULD BE LARGELY
OBTAINED FROM GOVERNMENT-OWNED BANKS. THOUGH E UNABLE
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DOCUMENT IT, CAL CLEARLY ENJOYS FAVORED STATUS WITH

GOVERNMENT BANKS IN FINANCING OF PLANT AND EQUIPMENT
OTHER THAN AIRCRAFT.

3. U.S. CARRIERS IN TAIPEI (NWA AND TWA) INFORM US THAT--
APART FROM COMPREHENSIVE DOCUMENTATION REQUIREMENT
AND DELAY IN REPATRIATION OF PROFITS, AND FLEXIBILITY
WHICH WHICH CAL (AND OTHER NON-US CARRIERS) ADMINISTER
FREIGHT REBATE OR DISCOUNTING POLICIES--THEY DO NOT
OPERATE AT SIGNIFICANT DISADVANTAGE IN ROC. THOUGH
DIFFICULT TO STATE WITH CERTAINTY, INsofar AS U.S. CARRIERS
AND EMBASSY ARE AWARE, ALL CARRIERS, INCLUDING CAL,
PAY SAME FUEL COSTS, LANDING FEES AND AIRPORT SERVICE CHARGES.
THERE IS NO REPORTED INCOME TAX BENEFIT TO CAL EMPLOYEES
NOR RELIEF FROM CORPORATE TAXES GRANTED BY ROC TO
THE NATIONAL CARRIER.

4. ROC EMPLOYEES ARE REQUIRED TO FLY THE NATIONAL
AIRLINE AT SUSPECTED DISCOUNTED COST TO GOVERNMENT.
WHILE THIS ASSURES VIRTUALLY CLOSED CAL MARKET FOR
OFFICIAL ROC TRAFFIC, (NONETHELESS, VICE PRESIDENT
FLEW TWA MAY 5 ENROUTE LATIN AMERICA), THIS IS MIXED
BLESSING SINCE SIGNIFICANT CAL SEATING OCCUPIED BY
LESS THAN FULL-FARE PASSENGERS.

5. ABOVE SITUATION, CHARACTERIZED BY MODERATE ROC
CONCESSIONS TO ITS NATIONAL CARRIER LARGELY IN AREA OF
INTEREST AND TERMS ADVANTAGE, COULD CHANGE CONSIDERABLY
AS CAL FACES PINCH OF LOSS OF PROFITABLE JAPAN/TAIWAN
ROUTE AND OTHER RUPTURES POSSIBLE IN FUTURE. IN THE
EVENT, WE WOULD EXPECT ROC TO PROVIDE INCREASING
SUBSIDY TO ASSURE NATIONAL FLAG REMAIN ALOFT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CIVIL AVIATION, SUBSIDIES, AIRLINES, CENTRAL GOVERNMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 10 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TAIPEI02982
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740114-0623
From: TAIPEI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740555/aaaabxjy.tel
Line Count: 92
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 079306
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 12 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12-Aug-2002 by rowelle0>; APPROVED <11 FEB 2003 by GarlanWA>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CIVAIR: FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN AIRLINES
TAGS: ETRD, TW
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005